

Utah's Tax Structure

Tax Review Commission

November 9, 2007

Janis Dubno, Levi Pace
Center for Public Policy & Administration
University of Utah

The purpose of this study is to evaluate Utah's tax policy with respect to the income tax, state and local general sales tax, and property taxes and to compare these policies to those of seven intermountain western states, including Arizona, Colorado, Idaho, Montana, New Mexico, Nevada and Wyoming.

How simple are the tax policies?

How transparent?

What is the degree of economic neutrality?

Are tax revenues stable?

Are revenues sufficient in funding State and Local government?

Is the tax structure equitable?

Is there balance in the State and Local tax revenue structure?

What western state has the most competitive policy?

How to measure and compare? Income Tax

- Number of Lines on Tax Forms
- Number of Pages in Instructions
- Number of additions and Subtractions
- Number of Credits
- Number on Income Brackets
- Standard Deductions
- Personal Exemptions

How to measure and compare?

Sales Tax

- Range of State and Local Rates
- Number of Exemptions and Exclusions

Property Tax

- Uniformity of Assessment Ratios
- Range of Tax Rates
- Revenue/Rate Caps

Results: Income Tax

- It is difficult to conclude unequivocally which state has the greatest simplicity with respect to the income tax.
- Montana has the least number of lines on their income tax form and the least number of pages in their instruction, yet the greatest number of additions and subtractions from income.
- Utah's Single-Rate system has the least additions and subtractions, making the calculation of taxable income quite simple.
- Colorado and Utah (Single Rate) do not use income tax brackets, making the calculation of the income tax relatively simple.

Results: **Income Tax (cont'd)**

- With the exception of Arizona and Montana, all the states follow federal standard deductions and personal exemptions.
- Utah allows 75% of the federal personal exemption.
- Idaho has the least number of income tax credits.
- Overall, it appears that Arizona has the most complex income tax.

Results: **Sales Tax**

- State tax rates are relatively straightforward.
- However, on a combined basis and in any given locality, determining the sales tax rate can be complicated.
- Only Idaho exhibits simplicity with respect to sales tax rates.
- Exemptions in some states, like Arizona and Colorado, can vary from place to place.
- Utah's tax base is, for the most part, consistent across the state.
- Simplicity is enhanced through a uniform tax base across all taxing jurisdictions.

Results: **Property Tax**

- Property taxes are anything but simple
- Idaho is perhaps the most straightforward. All property is assessed at 100% of Fair Market Value, while residences are allowed a 50% exemption with a maximum cap of \$75,000 for 2006
- Arizona is quite complex in that property is taxed at two different rates on two different bases
- A simple property tax system includes uniformity of assessment, uniform and standardized rates across the state with few overlapping taxing jurisdictions, and easily understood rate and revenue caps.

Do taxpayers know how much they are paying in taxes?

Are tax rates evident?

Is it evident as to what is being taxed, and where?

Results

Income Tax: Transparent

- All of the income tax systems are transparent in that taxpayers understand how much they are paying in taxes.
- However, for states that have many income brackets, the marginal tax rate can be difficult to ascertain for the average taxpayer.
- In addition, whether or not income tax brackets are indexed for inflation would make a difference in the degree of transparency.
- Montana and Idaho index their income tax brackets to adjust for inflation.
- Utah's single rate system indexes the taxpayer credit thresholds.
- Arizona, New Mexico, and Utah's Bracket system do not index for inflation

Results

Sales Tax: Not Transparent

- Consumers do not know how much in sales taxes they are paying on an annual basis.
- With the exception of Idaho, the range of tax rates and their composition is not readily evident at the check out counter.
- Since Idaho has essentially one uniform rate, it is more transparent relative to the other intermountain western states.

Results

Property Tax: Transparent

- Taxpayers are aware of how much they are paying in property taxes
- Truth and taxation laws, revenue caps and rate caps require public hearing and disclosure before rates or revenue may be increased.

How to measure? Income Tax

- The more additions and subtractions to income, the more a tax system discriminates between different sources of income and, therefore, the less economically neutral it is.
- Taxable income as a percent of FAGI and State personal income illustrate how much of the tax base is captured by the income tax.
- Neutrality is enhanced when the tax base is large and all forms of income are treated equally.
- Personal exemptions also influence the degree of neutrality. Exemptions favor larger family sizes.
- Finally, tax credits reward specific family types and behavior. Idaho has the least number of income tax credits.

How to measure?

Sales Tax

- A wide range in combined rates indicates that goods and taxed services are taxed differently from one locality to another.
- Exemptions and exclusions also undermine neutrality
- Calculate Taxable Sales as a Percent of GDP by state

How to measure?

Property Tax

- Range of property tax rates from locality to locality
- Tax base for residential and all property
- Assessment Uniformity: Coefficient of Dispersion

Results: **Income Tax**

- Utah's single rate system expands the base of the income tax to 73.10%, the largest tax base of the intermountain western states.
- Montana ranks second with taxable income of 69.39% of FAGI.
- Colorado taxable income is 68.23% of FAGI, reflecting a smaller number and magnitude of additions and subtractions.
- Colorado and Utah's Single Rate system taxes taxable income at 4.63%, and 5%, respectively.
- Among those states with graduated rate, income bracket systems, the lower the top bracket the more it is similar to a flat rate system.

Results:

Income Tax (cont'd)

- Examining the ratio of top tax rate to bottom rate, we see that the top rate for Arizona is 1.75 times the bottom rate. Montana's top rate is 6.9 times the bottom, but the top bracket is only \$14,500.
- Arizona's personal exemptions are the most generous, while Montana's is the smallest.
- Idaho has the least number of income tax credits.

Results: Sales Tax

- Idaho is the most neutral with respect to tax rates since it essentially imposes a combined uniform rate.
- The range of rates for Utah on a combined basis is not very wide, from 5.75% to 6% (excluding Snowville).
- New Mexico's sales tax is a gross receipts tax and has the largest tax base with taxable sales equal to 61.56% of state GDP, although the range of rates shown above is one of the widest, from 5.125% to 7.875%.
- New Mexico taxes the largest number of services (156 out of 168 in 2004).
- A large tax base is not the only condition for neutrality. Neutrality is best achieved when both the tax base is large and the rates are uniform.

Results: **Property Tax**

- Idaho has the largest tax residential base at 77.40% of fair market value. Idaho also has the lowest representative rate (0.955%).
- Utah has the second largest residential tax base at 55%, and, excluding Idaho, the largest tax base for all property at 72.45% of market value.

Income Tax Revenue: Coefficient of Variation

- New Mexico's income tax revenue was the most stable from 2000 to 2006, with a coefficient of variation of 6.35%. This is well below the average for all the income tax systems of 9.91%.
- Utah's Single Rate system ranks third with a coefficient of variation of 9.23%, behind Colorado (8.44%).
- The ratio of the coefficient of variation of the income tax to that of state personal income was lowest for New Mexico (.90), and the largest for Colorado (2.29).
- On average, the ratio was 1.60. That is to say, the coefficient of variation of the income tax, on average was 1.60 times the coefficient of the variation of state personal income.
- Utah's Bracket and Single Rate system was just below the average at 1.59 and 1.53, respectively.

Income Tax Revenue:

Average Growth Rates: Coefficient of Variation

- Montana had the most stable income tax growth rate, with a coefficient of variation of the real growth rate of 185.29%, well below the average of 780.22%.
- Utah's Single Rate system ranks second, with a coefficient of variation of 229.56%.
- Colorado's income tax growth rate, while the slowest, was the most volatile, with significant swings from positive to negative growth rates. The coefficient of variation of the real growth rates was 3288.35%.
- The ratio of the coefficient of variation of the real growth rate to that of state personal income was the lowest for Utah's Single Rate system (3.09 times), followed by Montana (3.48). Colorado ratio was the highest at 28.66.

Income Tax Revenue: Elasticity: Bruce and Fox (2005)

- New Mexico had the highest income tax elasticity at 3.11 (adjusting for rate changes), while Colorado's elasticity was the lowest at 1.17.
- Utah's elasticity under the Bracket system was 1.41, below the average of 1.74.

Sales Tax Revenue: Coefficient of Variation

- Colorado's sales tax revenue from 2000 to 2006 was the most stable, with a coefficient of variation of 3.77%.
- Utah's sales tax revenue is the second most stable, with a coefficient of variation of 5.30%.
- Idaho and Nevada are the most volatile with coefficients of variations of 12.56% and 12.73%, respectively. These states have the highest state tax rates, 6% for Idaho and 6.5% for Nevada.
- The ratio of the coefficient of variation of the sales tax to that of GDP by state is the lowest for Colorado (0.70) and the highest for Idaho (1.46). Utah's ratio was .65, below the average of .92.

Sales Tax Revenue:

Average Growth Rates: Coefficient of Variation

- Arizona's growth rate of sales tax revenues was the most stable, with a coefficient of variation of 157.29%.
- Utah ranks second with a coefficient of variation of the real growth rate of 180.69%.

Sales Tax Revenue: Elasticity

- Wyoming had the lowest sales tax base elasticity with respect to personal income (.72).
- Utah's sales tax base elasticity with respect to personal income is the second highest at .873, slightly above the average of .81.

Property Tax Revenue:

- Census data not available for all years
- Beta of .4 (Walker)

Income Tax Revenue

- Utah's Bracket and Single Rate income tax revenues are the greatest percentage of state personal income of the intermountain western states, 2.87% and 2.76%, respectively. The average of all the income tax systems is 2.38%.
- Utah's Single Rate system is the least volatile when assessing the income tax as a percent of personal income. The coefficient of variation for Utah's single rate system is 5.69%, below the 7.69% average.
- Colorado's income tax revenue as a share of state tax revenue was the greatest at 49.93% average, with Utah's Bracket system ranked 2nd at 41.03%, above the average of 36.50%.

Income Tax Revenue (cont'd)

- Montana's income tax was the smallest share of state tax revenue at 24.06%, but also the most volatile. The coefficient of variation for Montana of the income tax as a percent of state tax revenues is 9.04%, above the average of 4.36%.
- Colorado's income tax, on average, funded 28.97% of direct expenditures, well above the average of 20.53%. Both Idaho and Utah were also above the average, 23.95% and 21.55% (bracket system), respectively.

State Sales Tax Revenue

- Nevada's sales tax averaged 50.19% of state tax revenue, and 39.80% of own source revenue.
- Utah's state sales tax as a percent of state revenue was the most stable, with a coefficient of variation of 3.26%.

Local Sales Tax Revenue

- As a share of local tax revenue (38.22%) and local own source revenue (22.31%), New Mexico local sales tax was the most important.
- As a financing source, the average of the local sales tax as a percent of local expenditures was greatest for Colorado, 11.3%.
- New Mexico's local sales tax averaged only 8.85% of local expenditures.
- The importance of Utah's local sales tax ranks fourth for all three measures.

Property Tax Revenue

- Property tax revenue averaged over 90% of local tax revenue in both Montana and Idaho. Montana does not levy a sales tax and Idaho does not have local sales taxes, and consequently, local governments in both states rely heavily on the property tax.
- Yet, even in Montana, the property tax averaged only 31.56% of direct expenditures, revealing the importance of non-tax sources of revenue at the local level.
- Revenue caps play an important role in sufficiency, limiting the property tax as a revenue source for public education and local government. Colorado's TABOR laws are the most restrictive with respect to the growth of revenue and government.

Property Tax Revenue: Public Education Funding

- Local revenue was 50% of Colorado's total revenue for public education, while New Mexico's local revenue was only 13%.
- Utah, Idaho, Nevada, New Mexico, and Wyoming rely heavily on state source for public education financing.
- Idaho's property tax is the largest at source of local revenue for public education (87%), followed by Utah at 84%.
- Wyoming spends \$10,255 per pupil, while Utah spends the least of the intermountain western states at \$5,257 per pupil.
- While Utah's property tax is a sufficient source of local revenue for public education, Utah spends the least on each pupil.

State Tax Revenue

- Idaho's state tax revenue was 84.92% of own source revenue, followed by Nevada (82.34%), and Arizona (79.82%).
- As a financing source for direct expenditures, Nevada state tax revenue was the most sufficient with state tax revenue comprising 88.67% of direct expenditures.
- Nevada's own source revenue averaged 107.54% of direct expenditures, while Arizona averaged 90.09%.

State Tax Revenue (cont'd)

- With respect to state tax revenue as a source of own source revenue, Utah's bracket system was second to last at 64.01%. Utah's single rate system would have been last at 63.62%.
- Similarly, Utah's bracket system was third to last with respect to state revenue as a source of direct expenditures (52.57%), and the single rate system would have been second to last at 51.65%.
- As a financing source for direct expenditures, Utah's own source revenue under the bracket system is third to last at 81.98%, and Utah's single rate system would have been second to last, averaging 81.06%.

Local Tax Revenue

- Local tax revenue in Arizona averaged 63.88% of own source revenue, the highest percentage of the intermountain states.
- The range of averages among all the states, however, is relatively small, from a low of 47.97% for Wyoming to 63.88% for Arizona.
- The range of averages for local tax revenue as a share of own source revenue is also small, from a low of 24.28% in New Mexico to 36.86% in Colorado.
- There is more disparity among the averages for local own source revenue as a share of local direct expenditures. Colorado averaged 61.38%, while New Mexico averaged 39.53%.

State and Local Tax Revenue Combined

- As a share of combined state and local own source revenue, Arizona's combined tax revenue averaged 72.50%, followed by Idaho at 69.36%.
- Utah's bracket and single rate systems were on the lower end, with 62.57% and 62.31%, respectively.
- As a financing source for combined direct expenditures, Nevada's combined tax revenue was the most sufficient, averaging 49.62% of combined direct expenditures.
- Nevada's combined own source revenue averaged 72.54% of combined direct expenditures.

Income and State Sales Tax Revenue

- Idaho and Utah achieve the greatest balance between the two taxes.
- Idaho's income tax represents 38.90% of state revenue, the sales tax, 34.32%.
- Utah's Single Rate system would have been slightly more balanced than the Bracket system.

Property and Local Sales Tax Revenue

- At the local level, New Mexico achieves the greatest balance between the local sales and property taxes. Local sales tax was 40.35% of local tax revenue in 2005, while property taxes represented 55.38%.
- The property tax makes up the larger share for most of the other states.
- Montana does not levy a sales tax, so it relies on property taxes as a local tax source, accounting for 95.57% in 2005.
- Since Idaho has practically no local sales taxes, property taxes represent 94.56% of local tax revenue.

Income, Property and State and Local Sales Tax Revenue

- Idaho achieves the greatest balance, followed by Colorado and Utah's Bracket system.

Income Tax

- Arizona taxes the top income bracket at 4.54% and the top income bracket is \$300,000. Accordingly, income tax per capita is the lowest for Arizona at \$527.59.
- With respect to a state's competitiveness, a lower ratio of taxable income to FAGI is preferred, indicating that less of one's income is included in the base. Utah's Single Rate system has the largest tax base (73.105%) and New Mexico has the smallest base at 62.10% of FAGI.

Sales Tax

- Colorado has the lowest state sales tax rate (2.9%).
- Wyoming's combined state, county and local rate is the most competitive with a combined population weighted average rate of 5.386%.
- Utah is second with a representative combined rate of 5.81%.
- On a combined basis, per capita sales tax was lowest for Idaho (\$789.50), reflecting the absence of local sales taxes.
- On a per capita basis, Colorado was the most competitive with respect to state sales tax (\$442.85), but combined taxes are almost double (\$941.60), another indication of Colorado's decentralized approach to sales taxation.
- Per capita sales tax for both state (\$1,213.44) and combined taxes (\$1340.91) for Wyoming was the highest

Property Tax

- From the point of view of the homeowner, low assessment ratios and low representative tax rates constitute a competitive property tax environment.
- The tax base incorporates differences in assessment ratios and exemptions. Montana has the lowest tax base (3.11%), followed by Colorado (7.95%).
- Idaho is the most competitive with respect to the tax on a home with \$100,000 of market value. While Idaho has the second highest assessment ratio (Utah has a higher assessment ratio), it has the lowest representative rate, resulting in a tax of \$477.50 for \$100,000 of market value.
- One would expect, however, that due to the limit on the homeowner's exemption, property taxes in Idaho for a higher valued home would rise significantly.

Review of Top Performers

Tax Principle	Income Tax	Sales Tax	Property Tax
simplicity	CO, UT 08, MT	ID	ID
transparency	ALL (MT, ID, UT 08)	NONE (ID)	ALL
neutrality	UT 08, MT, ID	ID, UT, NM	ID, UT
stability	NM, CO, UT 08, MT	CO, UT	n/a
competitiveness	AZ, NM	ID (combined)	MT, CO, ID

Review of Top Performers Sufficiency

Income Tax	CO, UT 06
State Sales Tax	NV, UT
Local Sales Tax	NM, CO
Property Tax	MT, ID
State Tax Revenue	ID, NV, AZ
Local Tax Revenue	AZ, CO
State & Local Combined Revenue	AZ, ID, NV

Review of Top Performers Balance

Income and State Sales Tax	ID, UT 06
Local Sales and Property Tax	NM
Income, State & Local Sales, and Property Combined	ID, CO, UT 06

- Purpose: to estimate income, sales, and property taxes paid by representative households in eight western states for 2008
- Representative households
 - 14 household types: Married/Single, 0 - 6 children
 - 11 income levels: ranging from \$16,000 to \$212,000
- To highlight the impact of varying state tax policy, these 154 hypothetical Utah taxpayers are “transplanted” to each state, retaining the same characteristics: income, home value, spending, itemized deduction amount, etc.

- Income tax calculation for each state:
 - Start with income level = Federal AGI
 - Estimate additions and subtractions to Federal AGI
 - Include appropriate deductions, exemptions, and credits
 - Lookup tax rate for state taxable income
- Utah tax return data yields estimates of federal taxes, itemized deductions, and whether each household will itemize.
- Income taxes are for 2008 income taxes filed in 2009
- For Utah, estimates for both bracket and single rate systems

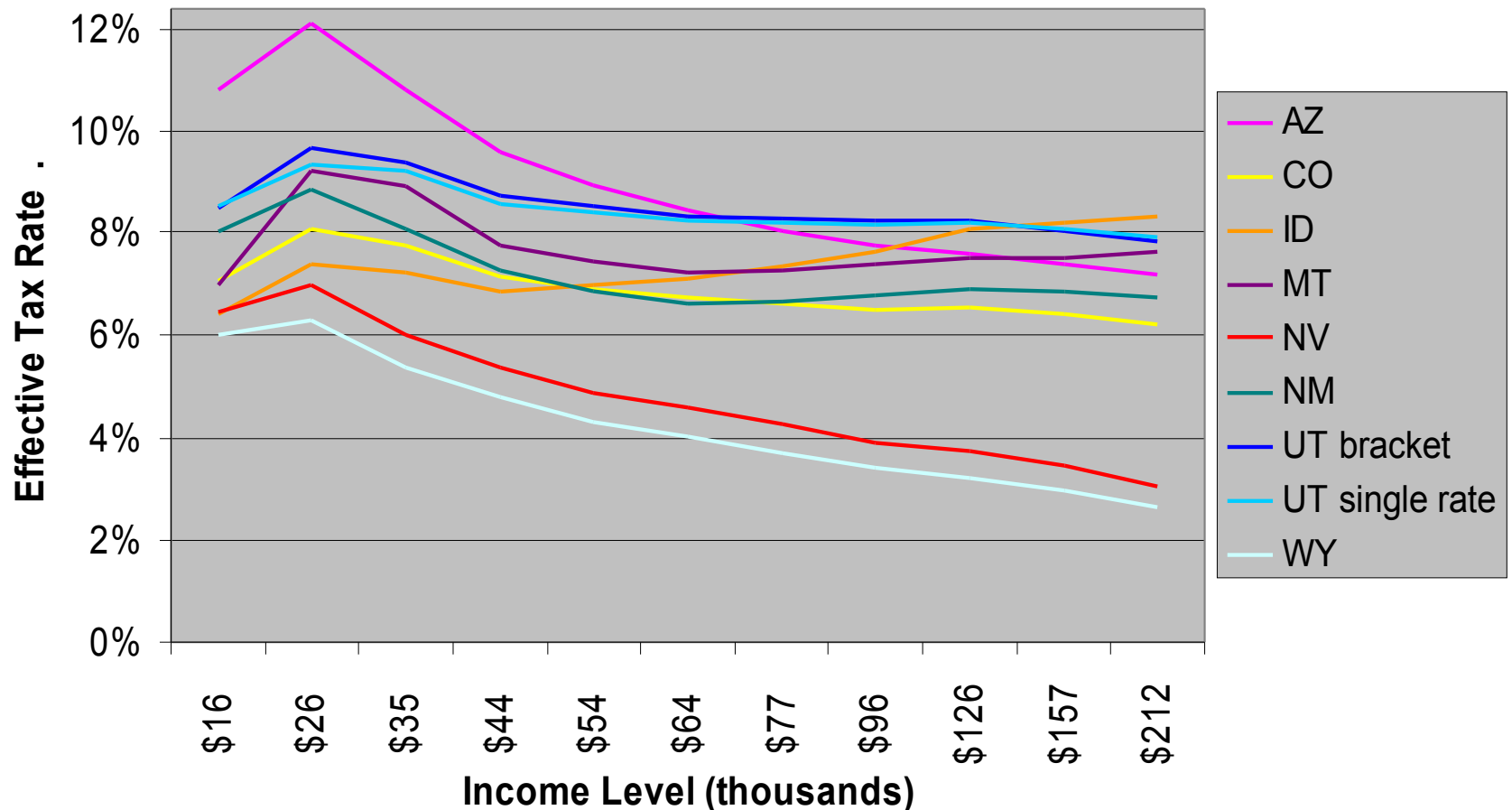
- Data from the Consumer Expenditure Survey (CES) show *spending* by household type and income for 760 expenditure items (nationwide estimate).
- For each state, determine which expenditures are sales taxable and total up *taxable expenditures* from CES.
- Multiply taxable expenditures by *sales tax rates* calculated from all local rates in each state weighted by Census population of locality to produce an average.

- Estimate median *home value* for each representative household from Census Bureau's American Community Survey (ACS), using all survey responses from the eight states.
- Multiply home values by the assessment ratio and the property tax levy for each state. Property tax rates come from aggregate residential statistics (taxes charged *divided by* assessed value).
- Low income households are not homeowners. For renters:
 - Estimate median annual rent from ACS
 - Multiply by portion of rent assumed to be property taxes

- Estimate median *home value* for each representative household from Census Bureau's American Community Survey (ACS), using all survey responses from the eight states.
- Multiply home values by the assessment ratio and the property tax levy for each state. Property tax rates come from aggregate residential statistics (taxes charged *divided by* assessed value).
- Low income households are not homeowners. For renters:
 - Estimate median annual rent from ACS
 - Multiply by portion of rent assumed to be property taxes

Effective Tax Rates

Total of Income, Sales and Property Taxes
All Representative Household Types



Effective Tax Rates

Total of Income, Sales and Property Taxes
All Representative Households

State	Income of \$26,000	Income of \$212,000	Ratio
Idaho	7.4%	8.3%	0.89
Utah Single Rate	9.4%	7.9%	1.18
Montana	9.2%	7.6%	1.21
Utah Bracket	9.7%	7.9%	1.23
Colorado	8.1%	6.2%	1.30
New Mexico	8.9%	6.7%	1.32
Arizona	12.1%	7.2%	1.69
Nevada	7.0%	3.1%	2.28
Wyoming	6.3%	2.6%	2.40

Ratio is of the \$26,000 income effective rate to the \$212,000 income effective rate

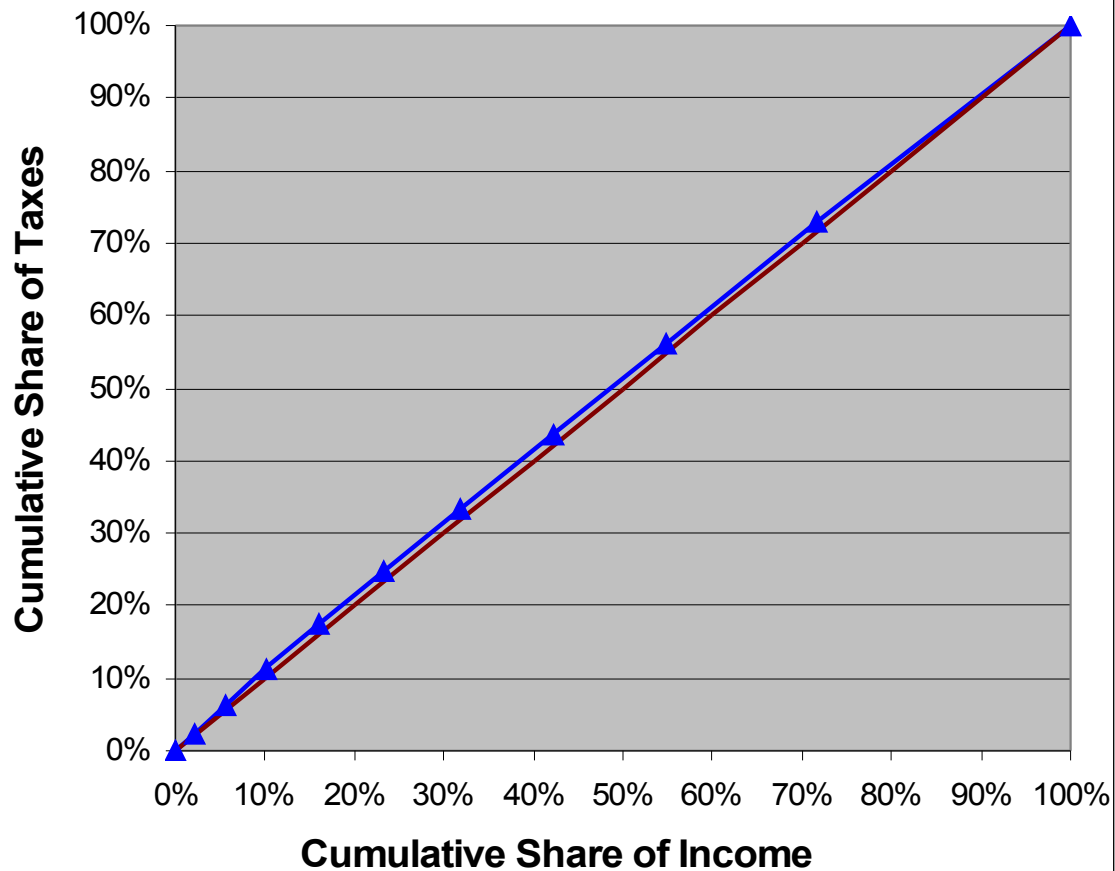
- Suits Index analysis is based on

- share of taxes paid
- share of income

for the hypothetical household profiles selected for this study.

- The share of income is the same for all states, since we use the same income levels for representative households in all states.
- Useful for comparing whether taxes are regressive, proportional or progressive.
- Not comparable to traditional Suits indices in other studies.

Suits Index for Utah Total Single Rate Income, Sales, Property Taxes



Suits Index Based on Representative Taxpayers

State	Suits Index	Rank from most progressive to most regressive
Idaho	0.039	1
Montana	-0.009	2
Utah Single Rate	-0.019	3
New Mexico	-0.024	4
Utah Bracket	-0.026	5
Colorado	-0.033	6
Arizona	-0.074	7
Nevada	-0.134	8
Wyoming	-0.143	9

Suits Index Interpretation

above zero means
progressive

equal to zero means
proportional

below zero means
regressive

the further below zero
the more regressive

Cumulative Taxes Paid by Representative Households of All Income Levels

Wyoming	\$31,837
Nevada	\$36,545
Colorado	\$60,004
New Mexico	\$62,907
Montana	\$68,902
Idaho	\$70,478
Arizona	\$73,214
Utah Single Rate	\$74,675
Utah Bracket	\$74,968

Center for Public Policy & Administration

Program/Policy Research

Program Evaluation
Research
Consulting

Academic Programs

Master of Public
Administration
Master of Public
Policy

Outreach

Training
Leadership
Development
Organizational
Development

Policy Perspectives, an electronic journal that presents different perspectives on current policy issues.

Visit us on the web:

www.cppa.utah.edu

Sign up for our eNewsletter:

www.cppa.utah.edu/about_perspectives.html

Email us:

policy@cppa.utah.edu

Mail us:

**Center for Public Policy & Administration
260 So. Central Campus Dr., Room 214
Salt Lake City, Utah 84112**

Call us:

801-581-6781